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TO RUEHC/SECSTATE WASHDC IMMEDIATE 8986  
INFO RUEHB/AMEMBASSY BEIJING PRIORITY 9753  
RUEHLO/AMEMBASSY LONDON PRIORITY 1872  
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RUEHFR/AMEMBASSY PARIS PRIORITY 5798  
RUEHUL/AMEMBASSY SEOUL PRIORITY 5807  
RUEHSM/AMEMBASSY STOCKHOLM PRIORITY 0641  
RUEHFK/AMCONSUL FUKUOKA PRIORITY 4002  
RUEHNH/AMCONSUL NAHA PRIORITY 6413  
RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 7667  
RUEHKSO/AMCONSUL SAPPORO PRIORITY 4699  
RUEHSH/AMCONSUL SHENYANG PRIORITY 0542  
RUEATRS/TREASURY DEPT WASHDC PRIORITY  
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY  
RHMFSS/USFJ PRIORITY  
RHEFDIA/DIA WASHINGTON DC PRIORITY  
RHEHAAA/NSC WASHDC PRIORITY  
RHMCSSU/FBI WASHDC PRIORITY  
RHHMUNA/HQ USPACOM HONOLULU HI PRIORITY  
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S E C R E T SECTION 01 OF 07 TOKYO 005020

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E.O. 12958: DECL: 10/26/2016  
TAGS: [PREL](#) [PGOV](#) [EFIN](#) [ETTC](#) [EFIS](#) [ETRD](#) [JA](#) [KN](#)  
SUBJECT: JAPAN'S SANCTIONS AGAINST NORTH KOREA

Classified By: Ambassador J. Thomas Schieffer. Reasons 1.4 (B) (D)

**¶11. (C) Summary.** Japan extended sanctions originally imposed against the DPRK following the DPRK's 2006 missile and nuclear tests by six months on October 10. The sanctions are aimed at limiting trade and financial flows to the DPRK, while sending a strong public message to Pyongyang about the abduction and nuclear issues. Loopholes and cut-outs available to the DPRK have limited the extent to which DPRK trade and cash flows have been affected, and a pre-sanctions decline in trade and money transfers mask what effect the sanctions may have had. That said, Japanese legal measures against Chosen Soren, North Korea's de facto representative in Japan, have gotten the DPRK's attention, taking a toll on the organization's activities. The DPRK has reacted to this &attack8 on Chosen Soren with protests in both Tokyo and the UN. Some Japanese government officials, academics, non-governmental experts, and third country embassy representatives hold mixed views about the sanctions, efficacy, particularly in terms of how they may shape the DPRK's decision-making process. End Summary.

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Strong Public Message  
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**¶12. (C) Following** the DPRK's missile and nuclear tests, the government of Japan announced a series of political, economic, and financial measures in 2006 aimed at punishing Pyongyang. In July, Tokyo banned the passenger ferry Mangyongbong-92 from entering Japanese ports, forbid entry of DPRK officials into Japan, and ended charter flights between Japan and North Korea. In September, consistent with requirements under UNSCR 1695, Japan banned interaction with 15 entities and one individual identified as having engaged in illicit financial activities with the DPRK. Following the October nuclear test, Tokyo banned all North Korean ships and goods from Japan, and barred all North Korean passport

holders from its borders. The Fukuda Cabinet extended these sanctions for another six months on October 10, citing lack of progress on the abduction issue.

¶3. (C) Tokyo authorities close to the abduction issue, such as Special Advisor to the Prime Minister on the Abduction Issue Kyoko Nakayama, are especially vocal in describing Japanese sanctions as "effective." In private, senior Japanese officials have described the importance they attach to the strong public message the sanctions send. For example, on September 4, 2006, Asian and Oceanian Affairs Bureau Director-General Kenichiro Sasae stressed to Assistant Secretary for East Asia and Pacific Affairs Chris Hill that

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needs to show North Korea there are consequences" to its policy of "brinkmanship." Failure by the international community to respond to DPRK bullying, he added, would constitute a case of "big thunder, little rain." Then-Chief Cabinet Secretary Yasuhisa Shiozaki, reinforced that message when he told visiting A/S Hill on January 20 that the point of sanctions enacted by Japan and the UN had been to isolate North Korea.

¶4. (C) Working-level officials at MOFA tell Embassy Tokyo that while Japanese authorities believe that sanctions may have some influence on the DPRK leadership, a key purpose of sanctions is to make clear how strongly Japan feels regarding the abduction and nuclear issues. At the same time, MOFA understands that the real-world impact of sanctions is not strong enough to change decisions by the North Korean leadership.

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Mixed Views About Sanctions, Efficacy

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¶5. (C) Several observers in Japan note the difficulty of distinguishing the effect of Japan's measures vis-a-vis those of the UN Security Council or U.S. actions directed against Banco Delta Asia in determining: 1) What is the actual effect of Japan's sanctions, and 2) how should effectiveness<sup>8</sup> be defined. In separate conversations with Embassy Tokyo, DPRK watchers Professor Masao Okonogi, Dean of the Law Faculty at Keio University, and Hideshi Takesada, Executive Director for Research and International Affairs of the National Institute for Defense Studies, agreed that Japan's sanctions are having "little to no effect" on DPRK decision-making or regime stability. Okonogi pointed out that North Korean cash flows from pachinko parlors, real estate holdings, and banking interests, which he claimed were the leading producers of hard currency for Pyongyang, had suffered more from the effects of Japan's economic slowdown than from its aggressive sanctions policy. The lone voice of dissent, Waseda University Professor Toshimitsu Shigemura, argued that sanctions were having an effect, but that they might take one to two years to impact the North Korean leadership's thinking.

¶6. (C) Reaction among Western embassies in Tokyo is also mixed. Canadian and New Zealand diplomats expressed the view that the "demonstration effect" was more important than the actual impact. However, the UK and Sweden, each of which maintains a diplomatic presence in Pyongyang, differ sharply from the others. Representatives of both nations state that sanctions are having a definite impact on the North Korean economy, although they admit that the impact on political decision-making remains uncertain.

¶7. (C) Swedish Embassy Deputy Head of Mission Magnus Lennartsson Nakamitsu said that his impression is that Japanese sanctions are having an impact on the DPRK. "People tell us that the import ban is certainly being felt in the coastal communities in the east," he added. He noted the

difficulties that the ban on port calls have created for "all sorts of illicit trade, including the income from the North Korean drug trade."

¶ 8. (C) According to UK Ambassador to the DPRK Jonathan Everard, the Japanese sanctions are "more effective than the UN sanctions." The loss of hard currency resources has hurt the regime, he observed, because in a country where "power flows from access to hard currency, the regime is probably alarmed that those who trade on the Chinese border and in markets are earning hard currency which is not under regime control." That revenue loss tilts the relative power in the DPRK away from the regime, and is likely to have made the regime "more cautious" in its internal policies, he added. Conversely, the pain inflicted allows "relative liberals" to argue that the costs of the DPRK's policy of defiance are too high, and allows military hardliners to call for renewed strength in the face of "Japanese aggression."

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Trade: Pre-Sanctions Downward Trend  
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¶ 9. (C) At first glance, data provided by Japan's Ministry of Economy, Trade, and Industry (METI) seem to suggest that Japanese trade restrictions are having an impact. Japan imported about JPY nine billion worth of goods from North Korea in 2006, but effectively ceased bringing in DPRK

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products as of December 2006. Japan's customs database records no imports from the DPRK for 2007. The nine billion yen drop in imports from 2006 to 2007 equates to a possible loss of at least USD 75 million in hard currency earnings, a figure amounting to approximately 5 percent of the DPRK's total exports in 2005. Exports from Japan to North Korea continue at the rate of JPY 50 - 60 million per month, an amount equal to less than USD 500,000 per month. This compares with JPY 400 - 500 million (USD 3 million ) USD 4 million) per month that in exports over the same period last year.

¶ 10. (C) In general, though, Japan-DPRK trade declined every year between 2002, the year North Korea admitted to abducting Japanese citizens, and 2005. Imports declined a total of JPY 20 billion during this period, while exports declined JPY 12 billion. Those decreases, coming well before Japan implemented sanctions, may reflect an "abduction boycott" -- an economic backlash staged by individual Japanese citizens angry over the abduction issue. Some observers note that the 2006-07 reductions in Japan-DPRK imports/exports are as much a result of the overall downward trend in evidence from 2002, as they are of last year's sanctions policy.

Japanese Imports    Japanese Exports  
                      from DPRK                      to DPRK  
                       (JPY billion)

|      |    |    |
|------|----|----|
| 2002 | 29 | 17 |
| 2003 | 20 | 11 |
| 2004 | 18 | 10 |
| 2005 | 15 | 7  |
| 2006 | 9  | 5  |

¶ 11. (C) With regard to items banned under UNSCR 1695 and 1718, Japan's Ministry of Economy, Trade, and Industry (METI) requires that, under the Foreign Exchange and Trade Control Law, the items prohibited for export to North Korea under those resolutions need METI approval in order to be exported legally -- approval which would be denied should any company actually apply. This requirement has been publicized through press releases, the Japanese government gazette, and notices to industry associations. Because there is no licensing system for controlling the trade in luxury goods, however,

the enforcement of this requirement relies on companies accurately reporting to Japanese customs on the content of their exports to North Korea. Customs officials then determine whether the proposed export does or does not conform to a product banned under the relevant UNSCRs.

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PRC-ROK Back Door  
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**¶12. (C)** Available data suggest that in response to Japan's sanctions, the DPRK has been able to turn to South Korea and the PRC to make up for trade shortfalls. Bilateral trade between the two Koreas in calendar 2006 totaled USD 1.35 billion, a new high representing an overall increase of 28 percent from 2005. South Korean exports, meanwhile, increased 16 percent, and imports 53 percent. PRC-DPRK trade showed similar expansion, according to figures supplied by Embassy Beijing, despite occasional cutbacks in commodities and services. Chinese exports to North Korea during the period 2001-06 rose from USD 573 million in 2001 to USD 1.23 billion in 2006 -- a more than 100% increase. PRC imports from the DPRK increased as well, from \$167 million to \$468

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million over the same period.

|      | PRC Imports from DPRK | PRC Exports to DPRK |
|------|-----------------------|---------------------|
|      | (USD million)         |                     |
| 2001 | 167                   | 573                 |
| 2002 | 271                   | 467                 |
| 2003 | 396                   | 628                 |
| 2004 | 582                   | 795                 |
| 2005 | 497                   | 1,085               |
| 2006 | 468                   | 1,232               |

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Finance: Difficult to Get a Handle On  
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**¶13. (C)** The paucity of data on the amount of money flowing between Japan and the DPRK, especially for the time period beginning immediately before Tokyo implemented its economic restrictions, makes it impossible to accurately assess what impact Japan's sanctions have had on hard currency going to North Korea. However, most observers believe the amount of money flowing between Japan and North Korea to be significant, and that the flow proceeds largely unchecked. Analysts base that view on the belief that Japan's sanctions, even if enforced diligently, probably force money into third-party channels. MOFA Intelligence and Analysis Service (IAS) Deputy Director-General Shigeo Matsutomi told visiting INR A/S Fort in September 2006 that bank remittances from Japan to North Korea had fallen to just USD 2 million dollars in 2005, the year before sanctions went into effect.

**¶14. (S)** An Embassy Tokyo-based team looking into money transfers, in cooperation with Japanese government officials, estimated that proceeds from pachinko and pachinko slots might be in the range of USD 261-280 billion. However, this same team believes that very little of this money is remitted to the North. There are several reasons: first, the pachinko industry has become immensely competitive, with Taiwanese and South Korean firms entering the market and driving down profit margins. The view that Chosen Soren controls the industry, and that it is a DPRK cash cow, is no longer accurate. Second, changes in tax laws several years ago, and in the procedures for collecting taxes, have made it much harder for pachinko parlors to hide earnings that can then be remitted to the North.

**¶15. (C)** Japan-DPRK financial flows continue either directly, via third countries, or aboard foreign-flagged vessels. For example, Consulate-General Osaka-Kobe has noted reports that the passenger ferry Mangyongbong-92, banned from entering Japanese ports, continues to transport ethnic North Korean

Japanese passengers to the DPRK. Instead of boarding in Niigata as they used to, however, they now have to travel to Busan, South Korea, for transport to the DPRK.

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Financial Enforcement: Police Lack Manpower, Authority  
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¶16. (C) In 1990, the government required financial institutions to file suspicious transaction reports (STR's) for suspect money transfers with the Financial Service Agency (FSA). Japan created the Japan Financial Intelligence Center (JAFIC) within the FSA in 2000. The Organized Crime Law, enacted in March 2007 and aimed at preventing the flow of organized crime profits, moved the JAFIC from FSA to the National Police Agency (NPA). Under the new law, NPA headquarters farms out STR's collected by JAFIC to local police field offices for follow-up investigation.

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¶17. (C) NPA officials have told Embassy Tokyo they did not welcome the responsibility and resisted Diet efforts to have the JAFIC placed into police headquarters. The Diet failed to allocate additional money and/or manpower to the NPA, especially the local precincts, to carry out the new, additional responsibility -- meaning that already resource-strained local offices will be forced to take on this burden without additional resources. NPA also opposed the transfer because the new law does not give the police authority to supervise and order private sector institutions to act. The Japan Federal Bar Association (JFBA) opposed provisions obligating not only banks and financial institutions, but also lawyers, to complete STR's. JFBA fears that lawyers might be required to report clients involved in potentially suspicious transactions to police. The Crime Profits Law, which took effect in April 2007, exempts until the end of 2007 companies involved in real estate, jewelry, and private post office boxes.

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Loopholes in Reporting Requirements  
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¶18. (C) Japan's Anti-money Laundering and Anti-terror Financing Law requires monitoring of international remittances over JPY 100,000. Authorities do not monitor transactions below that amount. A second measure, the Customer Identification Law (the ID law will be rolled into the money/terror legislation by March 2008), requires banks to identify customers conducting domestic wire transfers for the same amount. However, a provision in the ID law permits customers to use their bank cards to send more than JPY 100,000 via ATM, on the theory that banks are presumed to have already satisfactorily identified those customers at the time the card was issued.

¶19. (C) For example, in a hypothetical case, a school run by the General Association of Korean Residents in Japan (Chosen Soren) can send JPY 99,999 to a DPRK bank without breaking the law, or being required to report the money movement. A Chosen Soren school that repeatedly sends money to the same DPRK bank every month might generate a STR by a diligent private Japanese bank official, but the school might avoid even that minimum scrutiny by having school staff members send varying amounts directly to different banks in North Korea, or via third countries.

¶20. (C) Contacts at the NPA and the Ministry of Finance (MOF) tell Embassy Tokyo that there are no specific criteria for identifying what constitutes a suspicious transaction. If, in the view of a bank official, the transaction does not seem to be suspect, no STR is filed with police. When banks do file STR's, suspect transactions are not held up pending investigation of the STR, and the money transfer takes place despite the fact that the transaction might later be deemed

illicit.

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Financial Transactions Trending Down  
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¶21. (C) Figures supplied by the MOF show remittance and cash courier transfers from Japan to the DPRK on a downward trend each year from FY 2000-06. Data from the first five months of Japan's FY07 (April 06 to August 06) indicate total transfers stood at USD 8.6 million, compared to USD 26.5 million for all of FY06.

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¶22. (C) This downward shift may be attributable to factors other than Japan's sanctions, such as Japan's "abduction boycott," or cash re-directed via third countries.

Reported remittances to the DPRK:

| FY (Apr-Mar)   | (USD, million) |
|----------------|----------------|
| 2000-01        | 39.4           |
| 2001-02        | 34.8           |
| 2002-03        | 34.0           |
| 2003-04        | 24.2           |
| 2004-05        | 24.1           |
| 2005-06        | 26.5           |
| 2006 (Apr-Aug) | 8.6            |

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Customs Enforcement Problematic  
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¶23. (C) Embassy Tokyo's Immigration and Customs Enforcement (ICE) officers report problems with Japan's lack of enforcement of monetary reporting requirements. Japan's Foreign Exchange and Foreign Trade Law (FOREX) requires travelers entering and departing the country to report physically transported currency and monetary instruments (including securities, travelers checks, and promissory notes) exceeding one million yen, or gold weighing in excess of one kilogram, to customs authorities. MOF officials report collecting approximately 2000 reports monthly, a number that corresponds to a minimum of USD 20 million that might be crossing Japan's border each month. Customs officials do not attempt to verify the information on the individual reports, are not allowed to analyze the data, and are not permitted to capture the information gathered onto a computer data base. Customs simply collects the information and passes it to MOF. As a result, Embassy ICE representatives assess that Japan's reporting for cross-border transportation of bulk cash is "perfunctory," and efforts to enforce reporting are "unmotivated." The thousands of Mangyongbong 92 ferry passengers who return to the DPRK each year from Busan could well be carrying millions in hard currency.

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Chosen Soren: Getting the DPRK's Attention  
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¶24. (C) One aspect of Japan's sanctions policy that appears to have gotten the DPRK's attention involves the actions taken against the pro-Pyongyang General Association of Korean Residents in Japan (Chosen Soren). Japan removed Chosen Soren's tax free status in 2007, a move that is forcing the closure of Chosen Soren-run schools in Japan. In addition, Tokyo District Court ordered the seizure of Chosen Soren's downtown headquarters, North Korea's de facto embassy in Japan, in order to collect roughly USD 500 million (62.7 billion yen) in bad loans owed to the quasi-governmental Resolution and Collection Corp. Our ROK Embassy colleagues speculate that the seizures were intended to "put pressure on North Korea" by curtailing Pyongyang's political and

financial activities in Japan, despite government claims that this was merely a tax collection issue. Chosen Soren members reacted by organizing large demonstrations in Tokyo, Nagoya, and Kobe on March 3 to protest unjustifiable political suppression." They protested again in Tokyo on October 10, and both Japan and the DPRK exchanged heated Rights of Reply at the UN on October 2 on the issue of the treatment of Chosen Soren.

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SCHIEFFER